



U.S. SENATE BANKING COMMITTEE

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**Statement of Chairman Dodd
Hearing on the Federal Reserve Board's
Semiannual Monetary Policy Report to the Congress**

Remarks as prepared:

I am pleased to call the Committee to order. Today the Committee will hear testimony from Federal Reserve Chairman Ben Bernanke on the outlook for the nation's economy, the Fed's conduct of monetary policy and the status of important consumer protection regulations that are under the Fed's jurisdiction. This is Chairman Bernanke's second appearance before the Committee this year. Mr. Chairman, it is good to have you.

When Chairman Bernanke was before the Committee two weeks ago, I laid out the facts of what I consider to be our country's very serious – if not perilous – economic condition. Growth is slowing. Inflation is rising. Consumer confidence is plummeting while indebtedness is deepening. Just as ominously, the credit markets have experienced significant disruptions. Consumers are unable or unwilling to borrow. Lenders are unable or unwilling to lend. There is a palpable sense of uncertainty and even fear in the markets, with a crisis of confidence that has spread beyond the mortgage markets to markets in student loans, credit cards, government bonds and corporate finance. As I've said previously, the catalyst of the current economic crisis is the housing crisis. Overall, 2007 was the first year since data has been kept that the United States had an annual decline in *nationwide* housing prices. A recent Moody's report forecasts that home values will drop in 2008 by 10% to 15% and others are predicting similar declines in 2009, as well. This would be the first time since the Great Depression that national home prices have dropped in consecutive years.

If the catalyst of the current economic crisis is the housing crisis, then the catalyst of the housing crisis is the foreclosure crisis. This week it was reported that foreclosures in January were up 57% compared to a year ago and continue to hit record levels. When all is said and done, over 2 million Americans will lose their homes as a result of what Secretary Paulson himself has called "bad lending practices". These are lending practices

that no sensible banker would ever engage in. Reckless, careless, and sometimes unscrupulous actors in the mortgage lending industry essentially allowed loans to be made that they knew hard-working, law-abiding borrowers would not be able to repay. And they engaged in practices that the Federal Reserve, under its prior leadership, and the Bush Administration did absolutely nothing to effectively stop.

The crisis affects more than the families who lose their homes. Property values for each home located within one-eighth of a mile of a foreclosed home will drop by an average of \$5,000. This will affect 44 to 50 million homes.

I commend Fed Chairman Bernanke for candidly acknowledging the weakness in the economy and for actively addressing those weaknesses by injecting liquidity and cutting interest rates. I also am pleased that the Administration and the Congress were able to reach agreement on a stimulus package that provides some support for working families who are bearing the brunt of these difficult times. However, more needs to be done to address the root cause of our economic problems. Any serious effort to address our economic woes must include an effort to take on the foreclosure crisis. That is a critical step toward restoring the confidence of consumers and investors in our economy.

We on this Committee have already taken several steps to address these problems. We have passed FHA modernization legislation through the Committee and the Senate and continue to work to make it law. We appropriated close to \$200 million to facilitate foreclosure prevention efforts by borrowers and lenders. In addition, the recently enacted stimulus package includes a temporary increase in the conforming loan limits for the GSEs to try to address the problems that have spread through the credit market into the jumbo mortgage market. While this temporary increase is helpful, we still need to implement broad based GSE reform and I am committed to do that.

And I have spoken about my belief in the need for additional steps to mitigate the foreclosure crisis in a reasonable manner. These steps include targeting Community Development Block Grants to communities struggling to counter the impact of foreclosed and abandoned properties. And they include establishing a temporary homeownership loan initiative – either using existing platforms or a new entity – that can facilitate mortgage refinancings.

But it is not just the Congress that needs to do more. The Fed needs to be as vigilant a financial regulator as it has been a monetary policy maker. That includes breaking with its past and becoming more vigilant about policing indefensible lending practices. I commended Chairman Bernanke last year when the Fed finally accepted its duty under the Home Ownership and Equity Protection Act to protect consumers from unfair and deceptive mortgage lending practices. But the Fed's recent proposed rule does not go far enough, in my view, to carry out that duty. I want to work with the Chairman and his colleagues, and urge them to consider stronger measures which will not only protect consumers, but also restore investor confidence in our mortgage markets so we can begin to see liquidity return to all facets of the mortgage market.

Despite these unprecedented challenges, I remain confident in the future of the American economy. We may need to change some of our policies, regulations and priorities, but the ingenuity, productivity and capability of the American worker and entrepreneur ought to never be underestimated. I look forward to working with Ranking Member Shelby and others on the Committee to address these issues and do what we can to put our nation's economy back on the right track.